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## A CRITICAL ANALYSIS AND AN EXTENSIVE EVALUATION ON THE SOARING RATES OF INFLATION IN KENYA

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#### ABSTRACT

The country, Kenya, seems to be at a brink of catastrophe due to the La Nina weather phenomenon. It is observed that the magnificence of nature is not appealing at Kenya which leads to affecting the 'economical scope' of the macro environment in Kenya. Thus, it becomes imperative to zoom further into analyzing and evaluating the true economical nature that Kenya experiences, introspect into the causes and the roles played by the government towards this unappealing situation, and suggest sensibly on how the affected economical scope of Kenya can be improved.

**Keywords:** Catastrophe, Economical, Government, Improvement.

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## **1.0 Introduction**

**Kenya**, known as **Republic of Kenya**, is a developing country situated in **Eastern continent of Africa** with its capital city being, **Nairobi**. It is world's **biggest exporter** of black leaves tea; high quality coffee; mangoes and flowers (horticultural products for Europe) lately. (Unicef.org 2017)

According to World Population Review (2017), Kenya is the **140<sup>th</sup> most densely** populated country that homes estimated population of **49.7 million** people with more than **46%**, living below poverty line.

According to Gebre, (2017), Kenya has tropical climate but currently experiences **La Nina weather phenomenon**- state of *extreme dryness*, which is *rising overall temperature, reducing humidity and seasonal rain and drying water reserves*- causing **severe drought** best for '**armyworm pest**' **outbreak**. As a result, the climate and outbreak have **damaged production of crops** such as maize (corn), tea, coffee and spinach. Based on, The Guardian (2017), livestock **stopped producing milk** and have scant market value due to lack of water and grazing pasture causing tremendous deaths. This brings Kenya on the brink of catastrophe as not only animals, but people are deprived from basic necessities. (see exhibit 6.0)

Based on Dahir (2017), this caused **persistent increase in general price level** and **continuous fall in currency value-showing creeping inflationary pressure**. According to Tradingeconomics.com (2017), Kenya experiences- declining economic growth rate (**1.6% in April to 1.2% in May**) (see exhibit 10), lower exchange rate (**KES 102.85 in April to KES 103.5 in May against 1USD**) (see exhibit 11.0), increasing unemployment rate (**from 11% in 2016 to 39.1% in 2017- highest in east Africa**) (see exhibit 12.0), balance of payment disequilibrium (**-80,647 million KES to -98,756 million KES**) (see exhibit 13.0) and low foreign direct investment (**619.72 USD Million in 2015 to 393.36 USD Million 2016**) (see exhibit 14.0).

## **2.0 Causes of Inflation**

Inflation rate in Kenya averaged 10.19% from 2012 to 2017 (see exhibit 1.0). However, since December 2016, there is a continuous rise in inflation rate from 6.35% up to 11.7% seen in May 2017- which marks the highest since May 2012. (see exhibit 2.0). This can be seen through the constant rise in CPI from 172.62 (October 2016) to 187.64 (May 2017) (see exhibit 3.0). Thus, the report focuses on Kenya's highest inflation rate of 11.7% and CPI of 187.64, marked in May 2017. (Tradingeconomics.com, 2017)

First, **structural perception of inflation**. Natural consequence of severe droughts, poor rain and armyworm pest outbreak caused structural rigidity of poor harvest and dying livestock (see exhibit 5.0) that increase staple food (maize, sugar, milk) insecurities in Kenya. (the Guardian, 2017) This low agriculture production declined productive capacity causing shortage in response to increased inelastic demand for food. According to Njini (2017), Jibrán Qureishi- says, 'food prices rise causing severe food inflation'. (see exhibit 9.0)

Second, **export is a component of demand pull inflation**. The extended dry spell caused halted production of tea and coffee (main exports), causing shortage in response to large demand for exports (knowing Kenya is amongst the biggest exporter of tea) (Gebre, 2017) (see exhibit 14.0). Exports fell from 54051.79 Million KES in April 2017 to 44801.46 Million KES in May 2017 (tradingeconomics.com, 2017). Combining both, low production and high foreign demand, it increases general prices of exports, causing towards certain extent, demand pull-inflation.

Third, **low foreign direct investment**. Kenya's FDI reduced from 1380.19 (2012) to 393.36 (2016) Million USD (see exhibit 14.0), due to low development, poor infrastructure and unfavorable business climate -driving off investors searching for investments generating better financial return. This outward FDI shows lesser demand for Kenyan Shilling (KES) causing falling exchange rates and increase supply of KES- creating monetary cause of inflation.

### 3.0 Impacts of High Inflation Rate

First, **consumer purchasing power declines** as Kenyans experience fall in real income due to Kenyan Shilling (KES) worth less than before (World Bank, 2017)- causing need for more money to buy same basket of goods. This can be seen through rise in CPI from 172.62 (October 2016) to 187.64 (May 2017) (see exhibit 3.0) mainly due to high prices of maize flour and dry maize, increasing cost of living (high price of food account high proportion of household spending). (Tradingeconomics.com, 2017)

Second, **exports less price competitive**. Increased prices of tea, coffee, mangoes and flowers (main exports) makes exports more expensive for foreign buyers like Europe which reduces Kenya's international competitiveness because high prices make Kenya (as exporters), less price competitive, thus causing a decline in export demand (Gebre (2017). This lowers export earnings from 54051.79 Million KES in April 2017 to 44801.46 Million KES in May 2017 (tradingeconomics.com, 2017) (see exhibit 15.0)- reducing Kenyan visible trade balance value, thus leading to a current account deficit from -4553.8 Million USD in April 2017 to -4675.4 Million USD in May 2017 (see exhibit 17.0).

Third, **elections**. Kenya holds Africa's most expensive elections (see exhibit 18.0). Due to low currency value, government spends 49.9 billion shillings (\$480 million) for electoral commission, procure election materials and conduct voter education exercises. However, knowing Kenya's deficits, financing failed many times in the past- causing intense violence in the country leading to thousands of people getting killed. This is creating uncertainty weakening foreign and local investors' confidence thus increasing insecurity that calls for more expenditure.

Fourth, **unemployment**. Rising production costs reduces revenue generated by maize and tea companies in Kenya. To manage costs, companies practice redundancy. Based on United Nations HDI, 2017, Kenya experiences highest unemployment rate in East Africa from 11% in 2016 to 39.1% in 2017 (see exhibit 12.0) due to high youth and voluntary unemployment rates. This is increasing homelessness, poverty and crime. (Asamba, 2017). Low employment reduces productivity worsening export earnings from 54051.79 Million KES in April 2017 to 44801.46 Million KES in May 2017 (tradingeconomics.com, 2017 (see exhibit 15), while increasing import spending from 129069 Million KES in April 2017 to 151426 Million KES in May 2017 (see exhibit 16.0)- reducing national output and economic growth due to balance of payment deficit.

Fifth, **government expenditure and imports**. Kenya is importing Maize from Zambia due to halted harvesting. (TheEastAfrican, 2017) This shows, from April to May 2017, imports are rising (129069 Million KES to 151426 Million KES) compared to exports (54051.79 Million KES to 44801.46 Million KES) causing current account deficit (-4553.8 Million USD to -4675.4 Million USD) due to more government expenditure, lowering exchange rates (KES 102.85 to KES 103.5 against 1USD) (The East African, 2017).

## **4.0 Efforts taken by Government of Kenya**

First, **duty-free imports**. In May 14, 2017, 29,000 tons with addition of 30,000 tons of white and yellow maize were imported from Mexico totaling 3 billion KES duty-free. (Michira, 2017) Also, more levy-free maize was imported from Tanzania, Uganda, Malawi and Zambia (more than 55,000 tons), to reduce production costs. It was mainly to cure hunger and benefit farmers from cheap animal feeds, thereby getting their livestock milking again. This increased living standards as health improved increasing productivity of society to harness Kenya's productive capacity. (Michira, 2017)

Second, **zero-rate (expansionary fiscal policy)**. Treasury Cabinet Secretary Henry Rotich proposed zero-rate sales tax charge on bread and maize flour, to reduce prices making it affordable. (see exhibit 7.0) (The East African, 2017) This reduced cost lowering prices that decelerated inflation rate from 11.7% to 7.47% in July. (Tradingeconomics.com, 2017) Low prices increased real income, increasing consumption and employers' profits- making wage payments affordable, thereby increasing employment.

Third, **capital investment (supply side policy)- KLIP**. Kenyan government developed innovative 'Kenya Livestock Insurance Programme' (KLIP) that 'monitors forage conditions using satellite imagery of drought-hit areas to deliver payouts to pastoralists when vegetation dies'. (the Guardian, 2017) This prevented depletion of livestock thereby preventing rise in milk prices. Although it increased government expenditure, it secures Kenya's resources that in turn could improve deficits.

Fourth, **land irrigation**. To reduce food inflation, Kenya, according to its medium-term plan, started reducing agriculture dependence on rainfall by increasing irrigated land by 404,800 hectares (Anon 2017). This involved government spending in installing sprinklers and connecting dams to land through streams to irrigate maize, tea and coffee. This increased production lowering cost and export prices.

## **5.0 Conclusion**

Kenya's inflationary pressures can be said "act of god"- a pure natural consequence causing structural rigidity, that is unavoidable and towards certain extent, beyond government capacity. It impacted Kenya with declining living standards and purchasing power as real income fell and unemployment rose after increased cost and low profits of employers. Exports fell due to less price competitive while KES depreciated as imports inclined causing balance of payment deficit and low foreign direct investment.

Economic growth worsened as government had no choice but to improve Kenyan economy through expenditure by reducing tax, importing food, investing in- technology, land irrigation and climate smart project. This was mainly to increase productive capacity of harvest, so prices fall, diminishing impacts. With this, Kenyan government was successful to decelerated inflation rate from 11.7% in May to 7.47% in July 2017. (Tradingeconomics.com, 2017)

## **6.0 Recommendation**

Kenya should **allow inflow of money through *invisible trade*** by **promoting tourism** (see exhibit 19.0) as Kenya faces decline in tourist from 79690 in January 2017 to 67531 in May 2017. Kenya can develop attractive packages for exploring untapped product diversity just like how Mozambique (Anon, 2017), launched its first bush and beach experience. This has increased total contribution of Travel & Tourism to GDP in south Africa to ZAR412.2bn (9.4% of GDP). (Anon, 2017) This can be achieved as both Kenya and Mozambique benefit from Indian coastline's popular beaches. This will attract foreign resorts to establish in Kenya boosting FDI, improving currency thereby increasing exchange.

Kenya should **increase civil jobs**. This is because, since 2015, Kenya retrenched 40,000 civil servants at cost of KES185 billion causing massive corruption. (Wanzala, 2015). However, Kenya has large youth population, thus, should enlist more youth in civil service to improve Kenyan defense and security, law and order and physical infrastructure. Intense violence during elections could be controlled reducing raids and killing of civilians (Dahir, 2017), creating employment and better FDI.

Kenya should **invite foreign investors** like multinational companies to invest and operate their production plants in Kenya **with zero-tax charge for two years**. Although government may not earn tax revenue initially, it will allow these factories to start operation, and after two years, these factories would have adjusted in the environment leaving lesser room for close-down. This inward FDI would boost demand for KES, thus improving exchange rate and recovering balance of payments. Also, it will create employment, improving Kenya's standards of living.

Kenya can **improve education** system creating better literacy rates amongst its youth population. This can boost employment, production and productivity, thus positively impacting on Kenya's GDP. Also, **sex education** can be taught to reduce sexual violence during political distress. This would help reduce high population growth (49.7 million people), allowing better living standards.



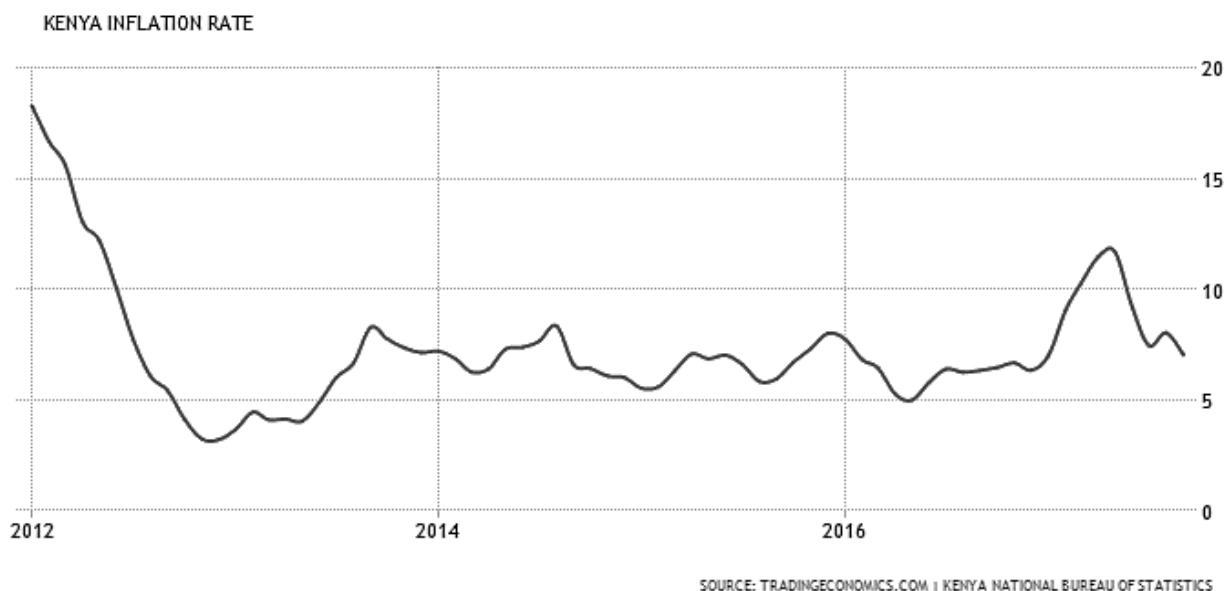
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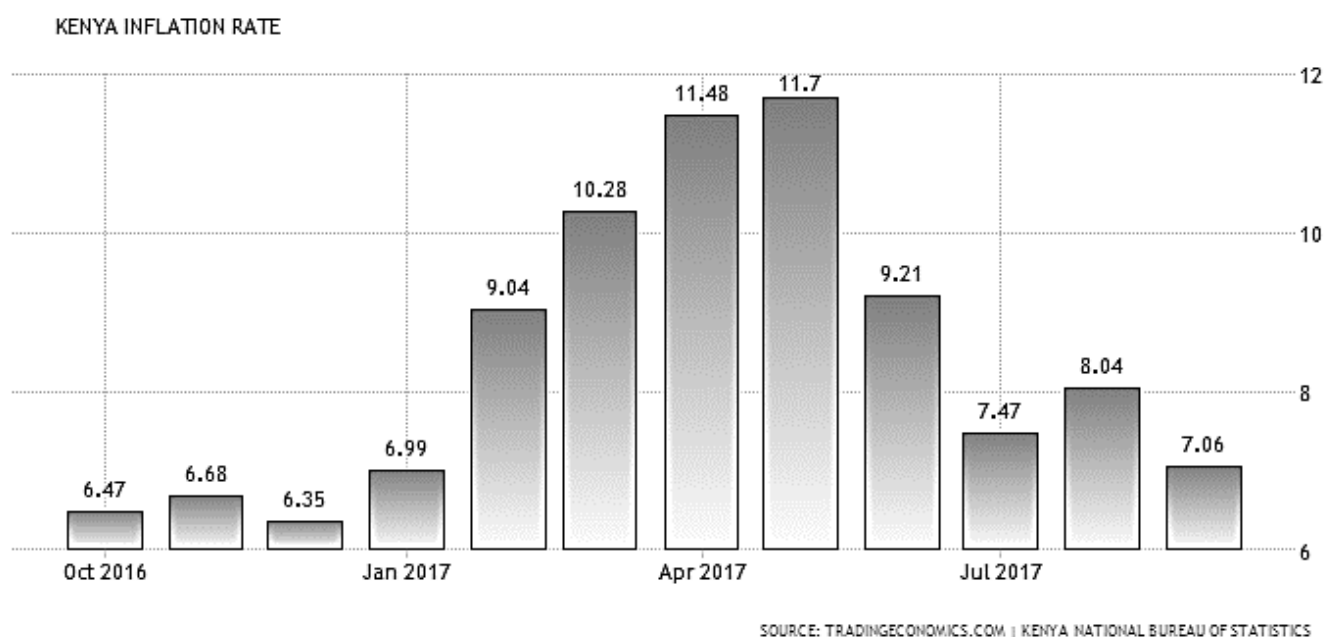
# APPENDIX

**Exhibit 1.0 Kenya's 5-Year Inflation Rate Statistics**



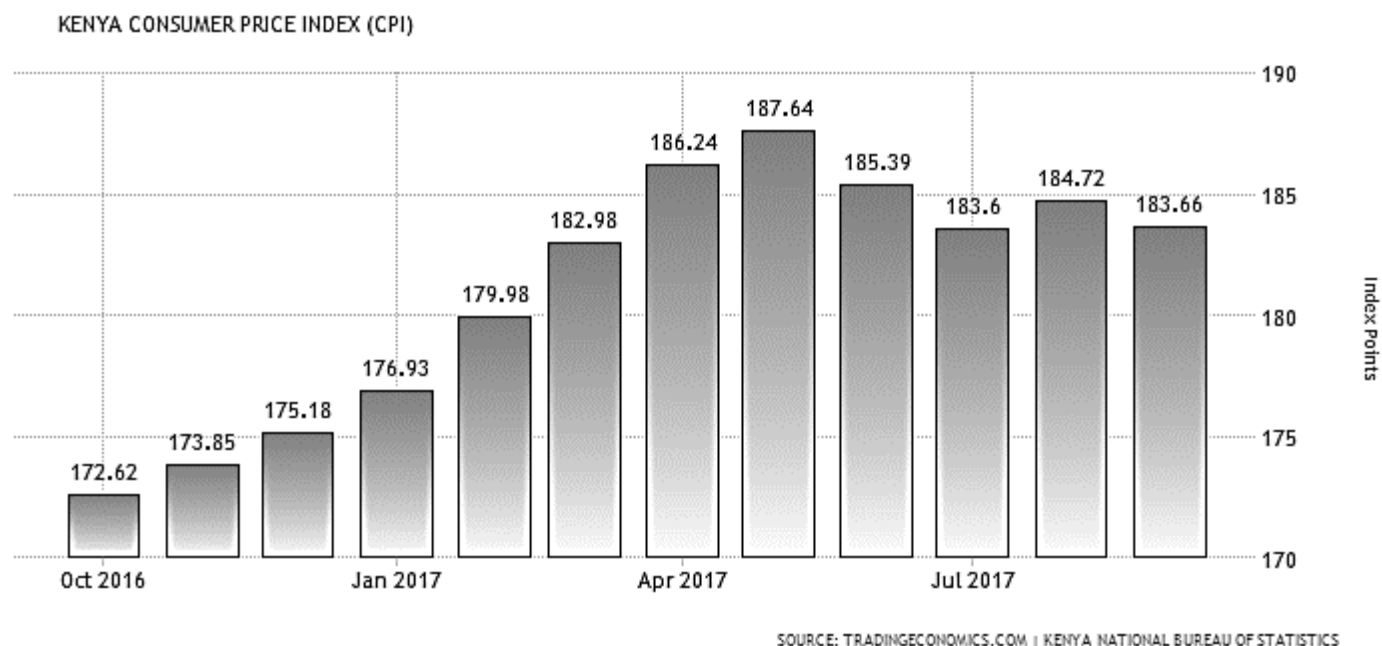
Source: Tradingeconomics.com, 2017

**Exhibit 2.0: Kenya's Monthly Inflation Rate Statistics 2016-2017**



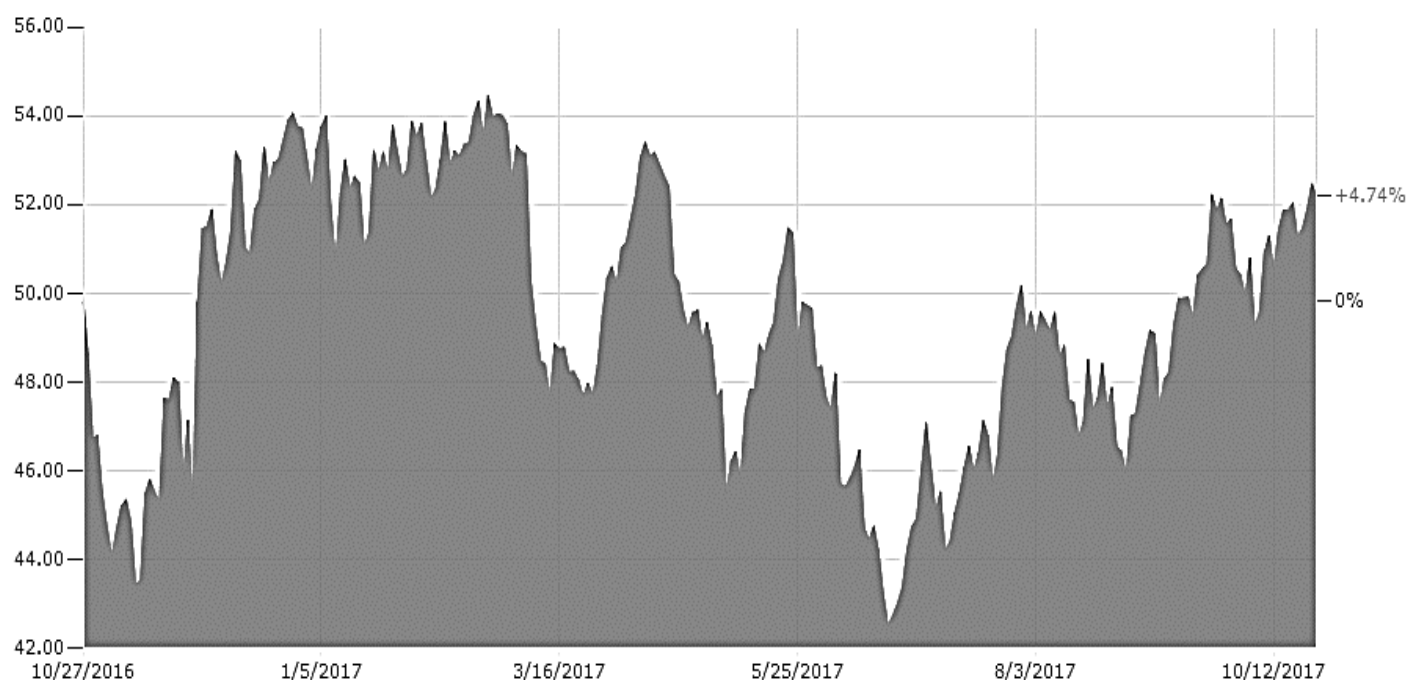
Source: Tradingeconomics.com, 2017

**Exhibit 3.0: Kenya's Monthly Consumer Price Index (CPI) Statistics 2016-2017**



Source: Tradingeconomics.com, 2017

**Exhibit 4.0 International Oil Price Statistics 2016-2017**



Source: (GmbH, 2017) (markets.businessinsider.com, 2017)

**Exhibit 5.0 Severe Drought Kills Livestock- Satellite Images (KLIP)**



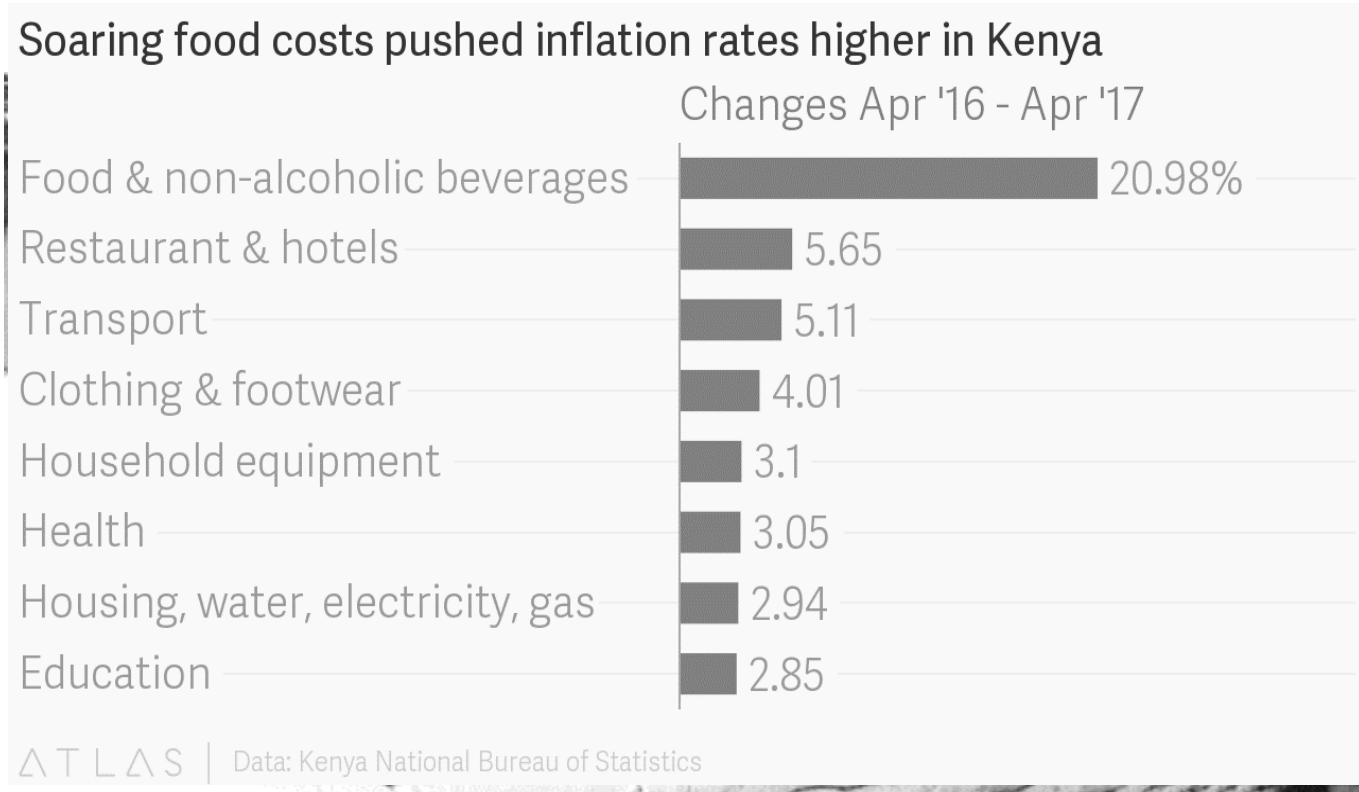
Source: the Guardian, 2017

**Exhibit 6.0 Kenya On The Brink of Catastrophe**



Source: the Guardian, 2017

**Exhibit 7.0 Zero-rate Tax on Maize**



Source: The East African, 2017

**Exhibit 8.0 Kenya Climate Smart Agriculture Project**



Source: NJUGUNAH (2017)

## Exhibit 9.0 Soaring Cost-Pushed Inflation Rate



Source: Dahir, 2017

## Exhibit 10.0 Kenya's GDP Growth Rate Statistics 2017/2017



Source: tradingeconomics.com, 2017

**Exhibit 11.0 KES Exchange Rate (Currency Value) against USD 2016/2017 Statistics**

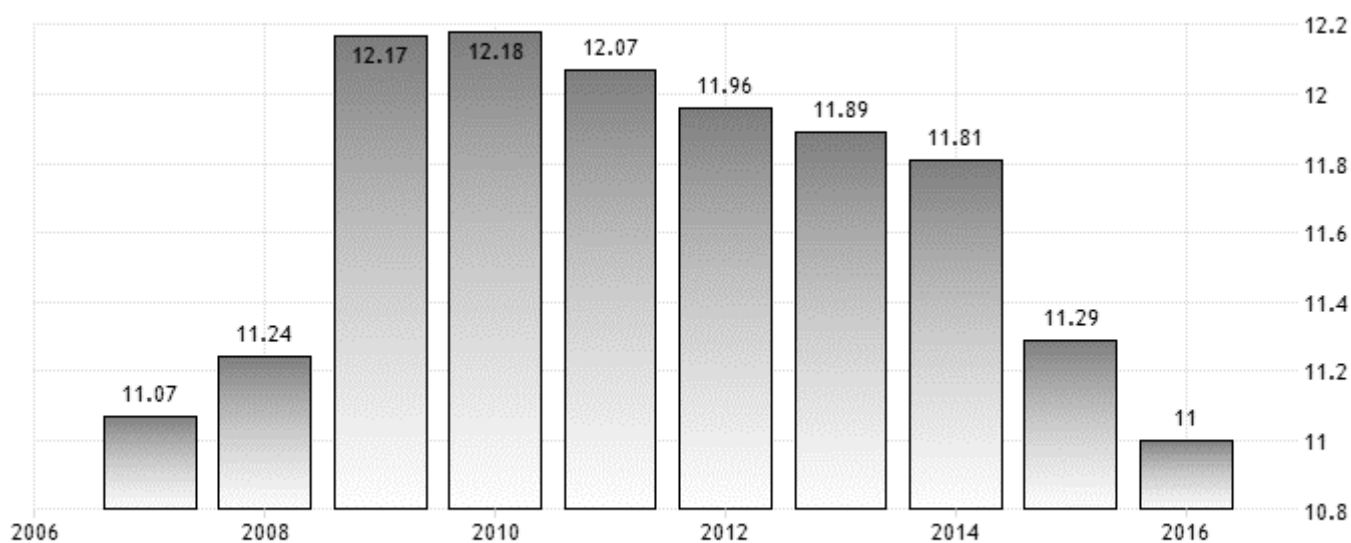


Source: [tradingeconomics.com](http://tradingeconomics.com)



## Exhibit 12.0 Kenya's Unemployment Rate

KENYA UNEMPLOYMENT RATE



SOURCE: TRADINGECONOMICS.COM | INTERNATIONAL LABOUR ORGANIZATION (ILO)

NOTE: Kenya's unemployment rate increased from 11% in 2016 to 39% in May 2017. However, this has not been updated in Statistics Provider tradingeconomics.com. However, this 39.1% high unemployment rate has been released in many news and articles. For evidence, please refer to <https://sokodirectory.com/2017/05/kenyas-unemployment-rate-hits-39-1-percent/> and <http://www.kenyaforum.net/2017/05/05/kenyas-unemployment-rate-worst-in-east-africa-report/> and <https://www.standardmedia.co.ke/article/2001253818/unemployment-in-kenya-what-you-should-know> - (Article given below)

### By Amina Faki

It's every college freshman's dream to immediately land a job after a long struggle in college. But the bitter truth slumps them right in the face as the rate of unemployment goes higher each day that passes by.

According to the United Nations in the Human Development Index (HDI) 2017 report, the rate of unemployment in Kenya is the highest in the East African region hitting a new high at 39.1 percent. This makes it the highest than its neighboring Ethiopia, Tanzania, Uganda, and Rwanda.

Economic growth continues to disappoint and underperform; this paints a worrisome picture for the national economy and the ability to generate enough jobs, let alone the quality of jobs. The persistently high level of vulnerable forms of employment combined with a clear lack of progress in the quality of the job is alarming.

## **KENYA'S UNEMPLOYMENT RATE WORST IN EAST AFRICA, REPORT**

Posted on 05 May 2017.



*high rate of unemployment in Kenya*

Kenya has the lowest employment rate in the East African region according to a recent UN report; The 2017 Human Development Index (HDI). According to the report by the United Nations Development Programme (UNDP), nearly four in every 10 Kenyans of working age have no jobs.

The east African economic giant trails her counterparts with 39.1 percent of the Kenyan population of working age being unemployed compared to Tanzania's 24 per cent, Ethiopia's 21.6 percent, Uganda's 18.1 per cent and Rwanda's 17.1 per cent.

"While Kenya has shown progress in promotion of human development — in improving access to education, health, and sanitation, with more people rising out of extreme poverty — several groups remain disadvantaged," The Human Development Report 2016 'Human Development for Everyone' looks at a country's socio-economic wellbeing based on three parameters — a long and healthy life, education and standards of living.

It also explores what societies should do to advance human development for everyone and sets forward policy recommendations at the national level and ways in which the global development landscape could be made more effective in the fight to leave no one behind and achieve the 2030 Agenda and the Sustainable Development Goals (SDGs).

Unemployment in Kenya, which now stands at 40% according to the latest statistics, has been one of the greatest challenges in the country with 80% of unemployed Kenyans being below 35 years old.

## **Unemployment in Kenya, what you should know**

**By Mercy Asamba**

| Published Thu, September 7th 2017 at 08:22, Updated September 7th 2017 at 08:29 GMT +3  
SHARE THIS ARTICLE Share on Facebook Share on Twitter Kenya records 39.1 percent unemployment rate. (Photo: Courtesy)

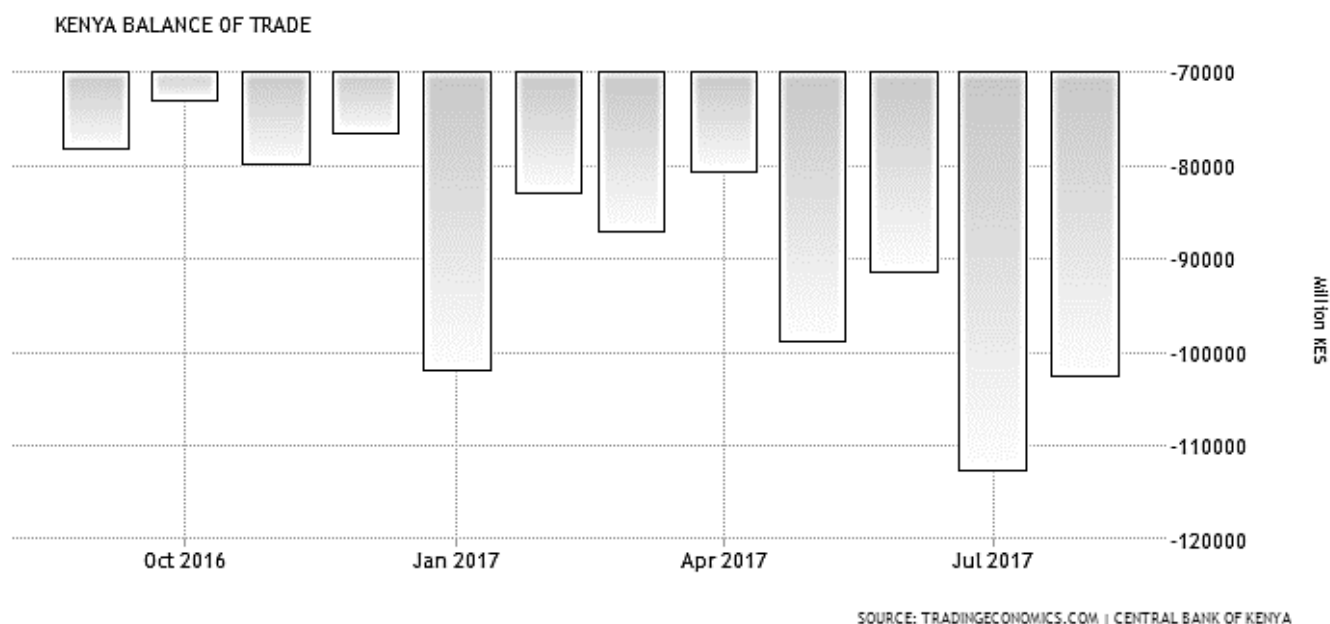
Kenya recorded 39.1 percent unemployment rate according to recent report by United Nations; Human Development Index (HDI) 2017. The latest statistics continue to reflect a shockingly high youth unemployment rate which as company's downside due to harsh economic environment. Kenya has the highest unemployment rate in East African.

Countries like Ethiopia, Tanzania, Uganda and Rwanda have recorded a lower unemployment rate as compared to Kenya. A deeper analysis of the numbers reveal large section of population suffering from chronic joblessness, however statistics haven't sufficiently been highlighted. The latest data reflects a shockingly high youth unemployment rate which as companies continue to downside due to harsh economic environment.

With voters below the age of 34 now at 9.93 million, more than half the registered 19.61 million, President Uhuru Kenyatta and Raila Odinga have promised Kenyans to create more jobs for youth if they win the election. Uhuru had said he would create a million jobs per year but he managed to create 2.5 million jobs since Jubilee came to power in 2013. One of its flagship youth empowerment programmes, the National Youth Service, is now a reference point for corruption rather than job creation. Raila also intends to tap into the youth and women funds to set up single mothers in business according to his manifesto. He has always accused the government for side-lining youth in terms of jobs for vested interests.

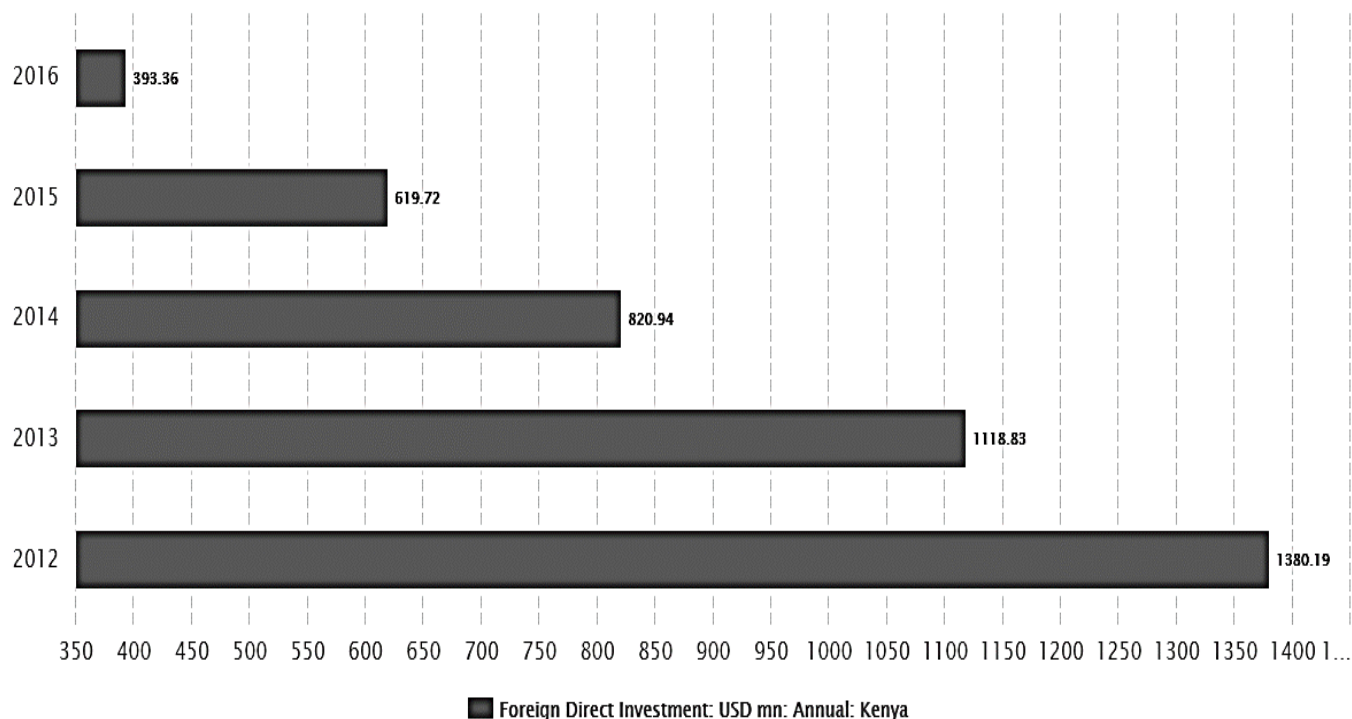
Read more at: <https://www.standardmedia.co.ke/article/2001253818/unemployment-in-kenya-what-you-should-know>

**Exhibit 13.0 Kenya Balance of Trade Statistics 2016-2017**



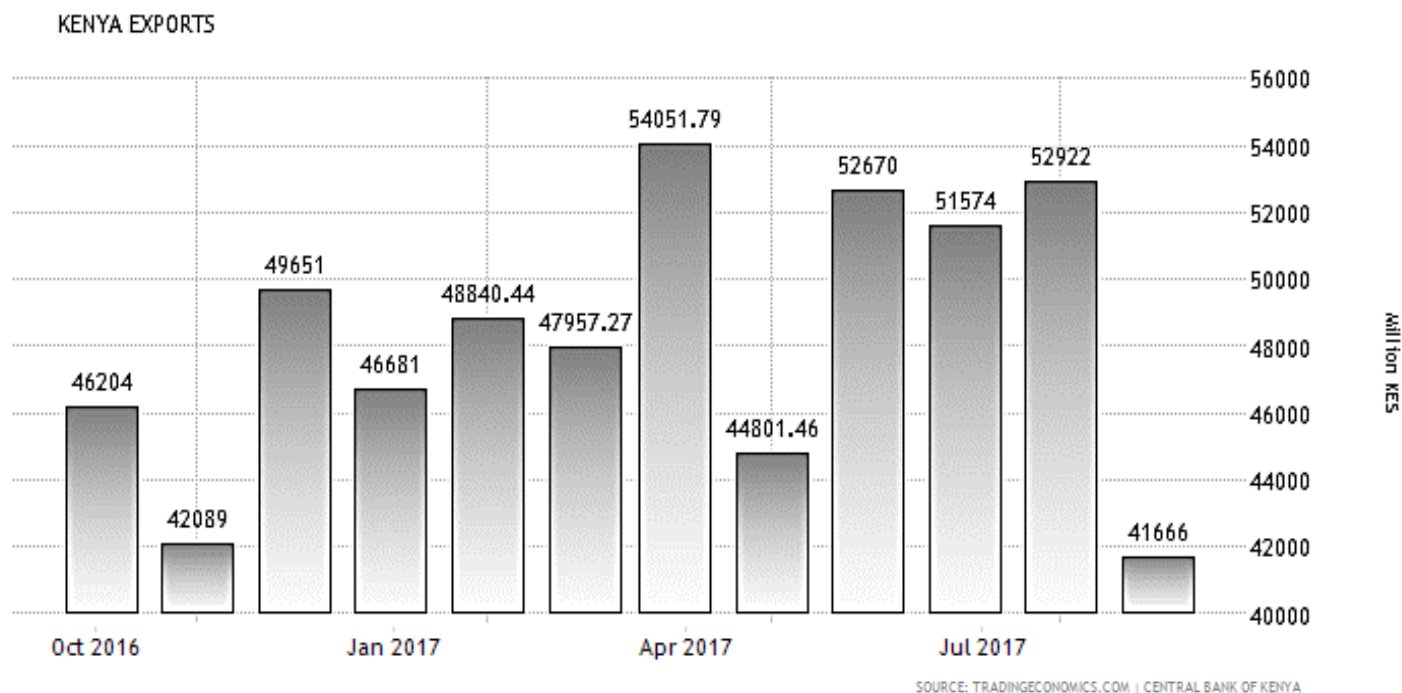
Source: tradingeconomics.com

**Exhibit 14.0 Kenya's Foreign Direct Investment Statistics 2012-2016**



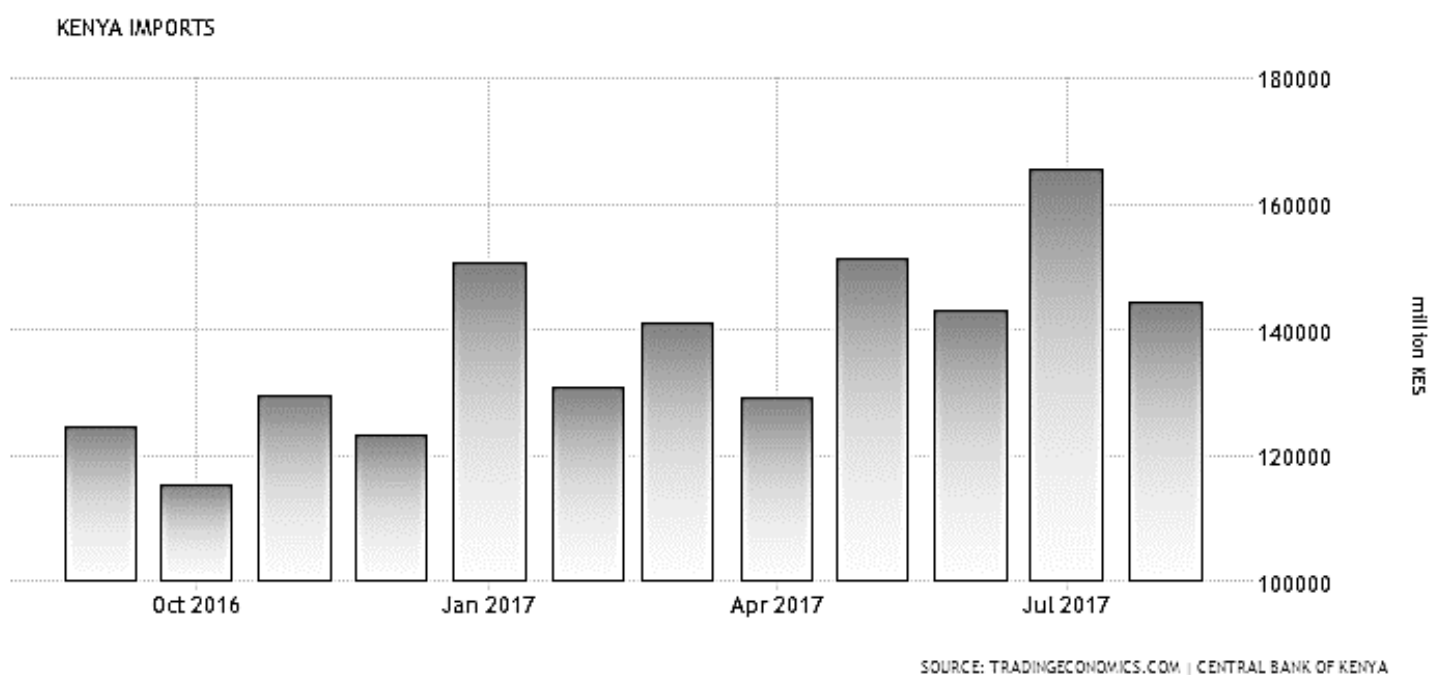
Source: ceicdata.com, 2016

### Exhibit 15.0 Kenya's Exports Statistics 2016-2017



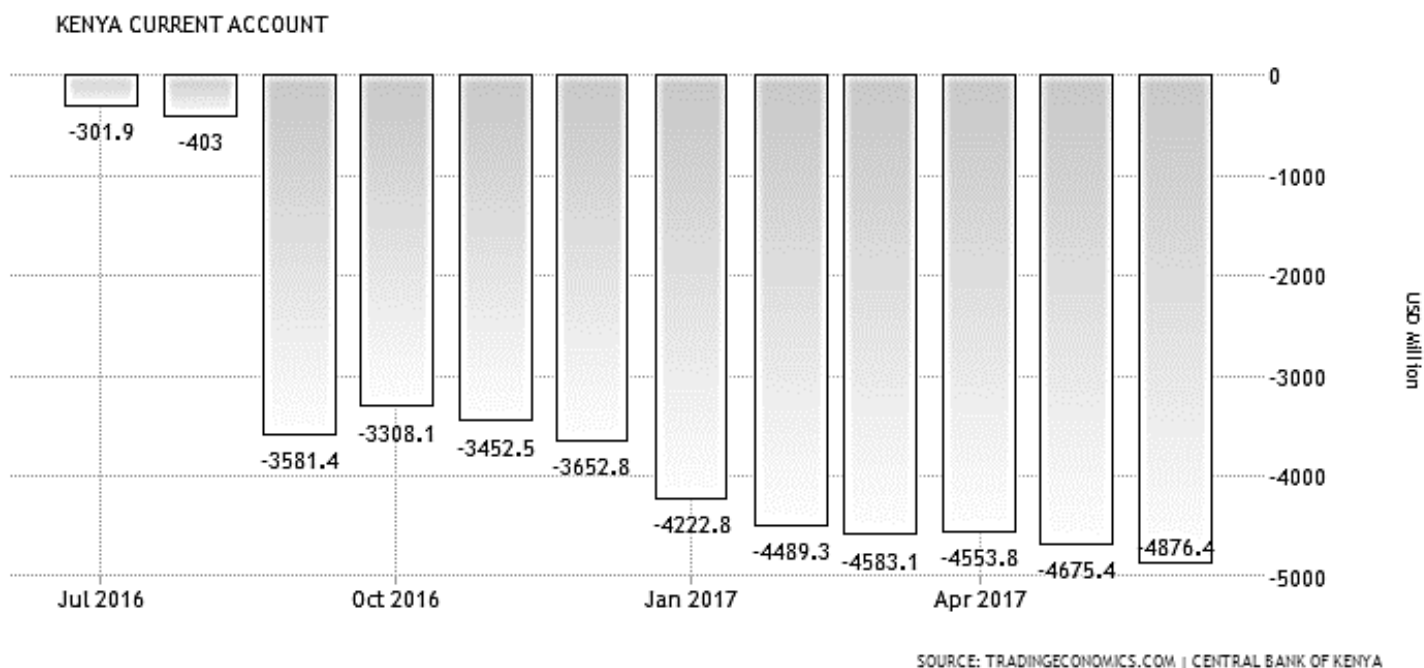
Source: Tradingeconomics.com

### Exhibit 16.0 Kenya's Imports Statistics 2016-2017



Source: Tradingeconomics.com, 2017

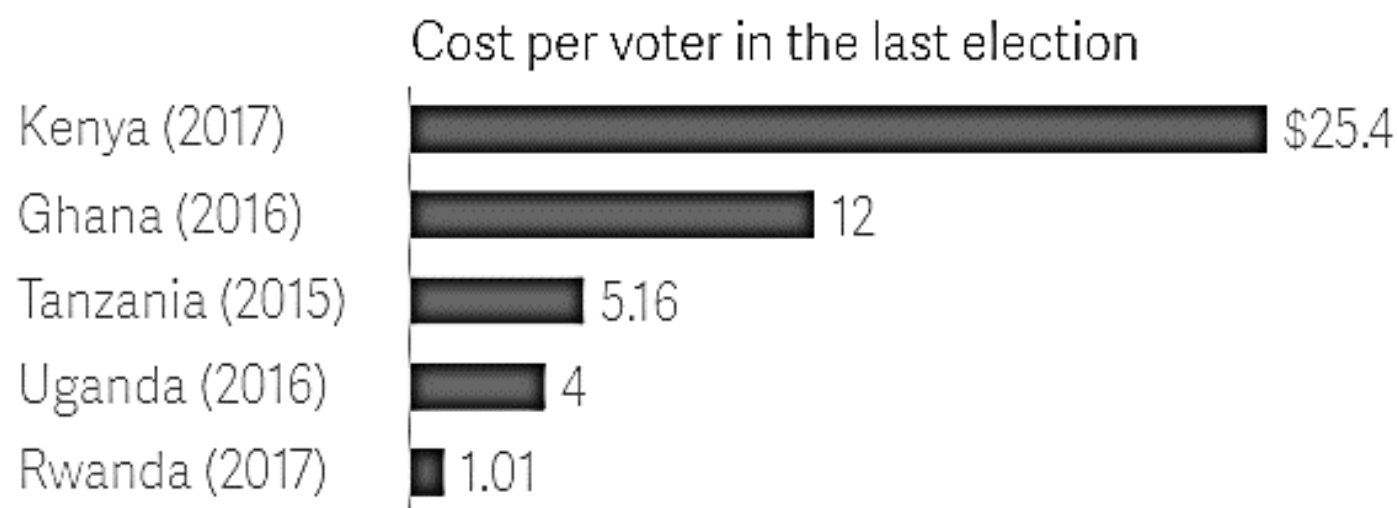
### Exhibit 17.0 Kenya's Current Account Statistics 2016-2017



Source: Tradingeconomics.com, 2017

### Exhibit 18.0 Kenya's Most Expensive Elections 2017

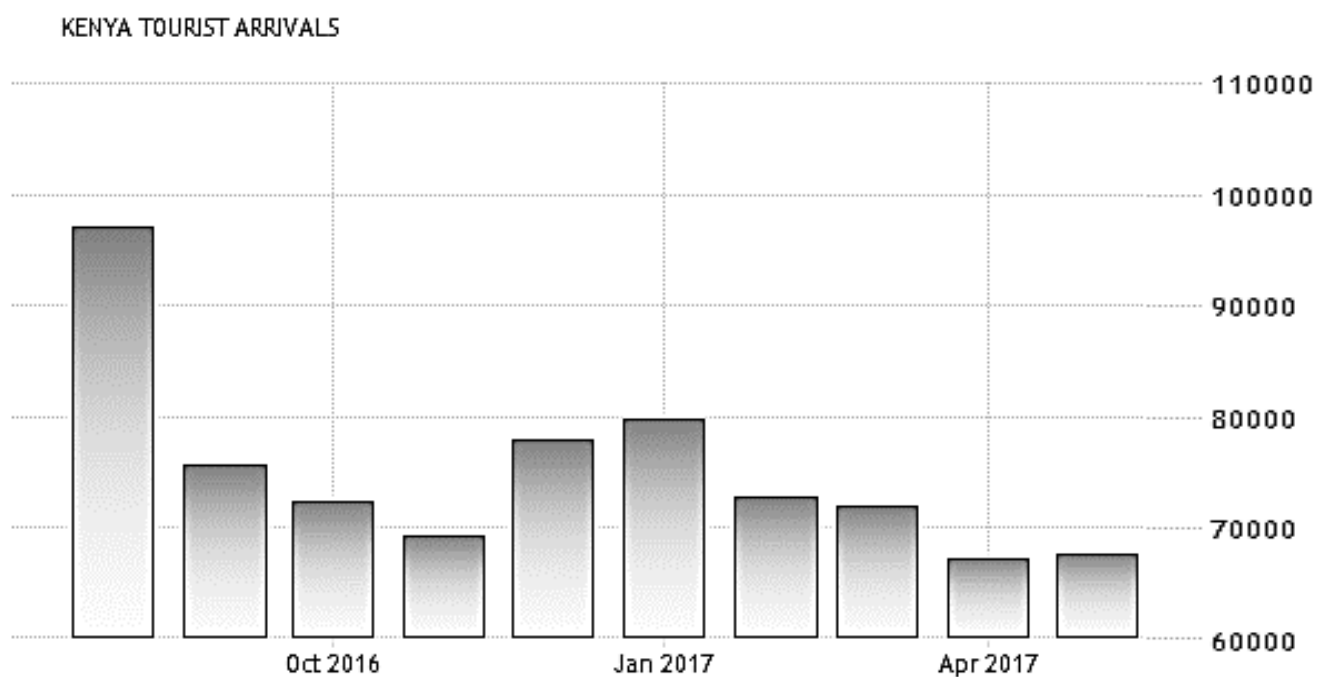
Kenya is holding one of Africa's most expensive elections



ATLAS | Data: Government election budgets

Source: The East African, 2017

**Exhibit 19.0 Kenya Tourist Arrival 2016-2017**



Source: Tradingeconomics.com, 2017

# NOTES

